



SECTION 1

Classification and Compensation

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Classification & Compensation Options

Background

The Classification and Compensation Concept Design Team was convened by DOP to identify possible options and make recommendations for a modern classification and compensation structure for the state's new human resource system. The team membership, listed in Appendix 1, represented a wide variety of interests and organizations including higher education institutions, state agencies, labor, management, employees, and human resource professionals.

The team used information from a variety of valuable resources including research conducted by DOP of public sector human resource systems across the nation, particularly those states that have undertaken relatively recent classification and compensation reform efforts. The team consulted directly with experts in other states and in the private sector.¹

Feedback from state managers and employees that was gathered from focus groups, customer surveys, and information/feedback sessions conducted by DOP in 2002 was highly valuable in identifying problems with the existing system and preferences for new classification and compensation processes.

In addition to the overall HR 2005 design criteria listed on page 2, the following specific expectations were provided to guide the team's efforts:

- Substantially reduce the number of existing job classifications².
- Expand salary ranges in order to provide greater compensation flexibility.
- Combine general government and higher education classification systems.
- Factor employee performance into future compensation practices.
- Ensure that new systems do not cause present employees to experience salary losses.
- Ensure that new compensation approaches are cost neutral or funded from within users' existing resources.

¹ In particular, the team consulted with Steve Loux who was the Compensation Manager with both the states of New Mexico and Oklahoma while those state governments underwent significant redesign of their classification and compensation systems. In addition, team members participated in an intensive compensation workshop addressing performance pay concepts and other forms of variable pay conducted by Jim Fox, partner of Fox Lawson public sector compensation consulting firm and Karin Hollohan, Human Resource Manager for Colorado Springs Utilities.

² This is a requirement of the Personnel System Reform Act of 2002, SHB 1268

Important factors in the current state operating and authorizing environment affecting this design work include the legislative requirement that rules for the new classification system must be adopted by the Washington Personnel Resources Board (WPRB) in March 2004. Well before then, a clear sense of classification and compensation design is needed to serve as the foundation for development of a new, human resource management information system that will support the new HR policies and processes and collective bargaining. Therefore, time is a very critical factor.

The team analyzed a number of classification and compensation topics and models, identified possible options, listed their advantages and disadvantages, and provided recommendations to the Director of Personnel.

After careful review and analysis, DOP determined which of the classification and compensation options (or modifications thereof) were most viable and should be presented for feedback to a broader audience. These are outlined in the remainder of this section.

Note: It was determined not to address the Washington Management Service system that is currently in place for classified managers since it is working well. If necessary, though, it can be incorporated in the options presented herein.

Classification Structure

The civil service reform law³ contains the following specific goals regarding a new classification structure and process for jobs in the state's classified service:

- To improve the effectiveness and efficiency of the delivery of services to the citizens of the state through the use of current personnel management processes and to promote a workplace where the overall focus is on the recipient of governmental services;
- To develop a simplified classification system that will substantially reduce the number of job classifications in the classified service and facilitate the most effective use of state personnel resources;
- To develop a classification system to permit state agencies to respond flexibly to changing technologies, economic and social conditions, and the needs of its citizens;
- To value workplace diversity;
- To facilitate the reorganization and decentralization of governmental services; and,
- To enhance mobility and career advancement opportunities.

³ Personnel System Reform Act of 2002. SHB 1268

In addition to this directive, the following considerations were applied in designing possible options for a new job classification structure:

- Reasonable order and consistency in design
- Ease of communicating to management and employees
- Ease of transition from current to new structure
- Capability to be flexible to labor market changes
- Compatibility with a new computerized human resource management system
- Ability to accommodate a wide variety of compensation approaches
- Improved efficiency in performing ongoing classification and compensation responsibilities, such as: promotions, reallocations, maintenance of internal pay relationships, ability to budget for salary change costs, career pathing, etc.

After reviewing conceptual design possibilities for a new state job classification structure, the Department of Personnel determined that the most viable option is one that places jobs into distinct occupational categories and wide salary bands. This structure best meets the HR 2005 design criteria, the statutory directives, and the other considerations listed above.

The recommended design is discussed in detail beginning on the following page. To put it into context, it is first worthwhile to briefly describe the existing classification structure.

The Existing Job Classification Structure

The existing classification system for Washington State general government agencies and higher education institutions contains 2,400 separate job classifications. Each of these job classes is assigned a salary range from the state's compensation plan. There are 99 salary ranges to select from, although 83 are actually used at present.⁴ Each salary range is approximately 28% in width (salary dollar minimum to maximum) and is composed of 11 steps (A-K) that are approximately 2.5% apart in value.

Employees progress up the steps in a range, based solely on longevity, until they reach the top of the range. This takes about 4½ years. At that point, the employee's salary is frozen. Other than general cost-of-living-adjustments, typically the only way to get a salary increase is to move to a higher salary range, either through promotion to a new job or by having the position reallocated to a higher classification based on incremental increases in duties and responsibilities. The existing system does not recognize individual differences in performance, development, value, and contribution to the organization.

⁴ It is noted that in other public sector organizations, the average number of pay ranges is 37, and most have under 30 pay ranges.

This lock-step salary structure recognizes very small differences in job value, but it is highly inflexible requiring a change in salary range to effect even modest salary growth. Nearly two-thirds of general government classified employees are at step K, and nearly three-quarters will be at step K by the time HR 2005 is implemented. As such, under the present system, they will have no room for salary or career growth unless promoted or reallocated to a higher range. Under the present system, there are several limitations surrounding promotions and reallocations, and both types of actions require significant administrative efforts and are very time-consuming.

Proposed Classification Structure

The recommended new structure completely redesigns and consolidates the existing general government and higher education classification plans into a single plan with approximately 200-300 broad, but descriptive, occupational categories.⁵ Jobs would be placed into occupational categories based on commonality of work (see Appendix 2 for the draft criteria).

Most occupational categories would then be divided into four general levels of work. The following levels would be generic to most occupational categories (Appendix 3 provides more detailed definitions):

Level 1 – Entry

Incumbents work under close to general supervision and within narrowly established guidelines.

Level 2 – Journey

This is the working or fully qualified level.

Level 3 – Senior

This is the most complex or in-depth work and is often described in a variety of ways including Specialist, Expert, or Lead.

Level 4 – Supervisory

Incumbents have delegated authority to perform functions such as, but not limited to, selection, training and development of staff; assigning and evaluating work; and taking corrective action.

These levels would be considered the job “classes”. As such, the new structure would have somewhere between 800-1,200 job classes (the number of occupational categories times 4 levels). This compares to 2,400 job classes in the existing system.

A number of other states use variations of this approach, such as New Mexico, Oklahoma, Virginia, South Carolina, and Florida. Some of these states use the federal

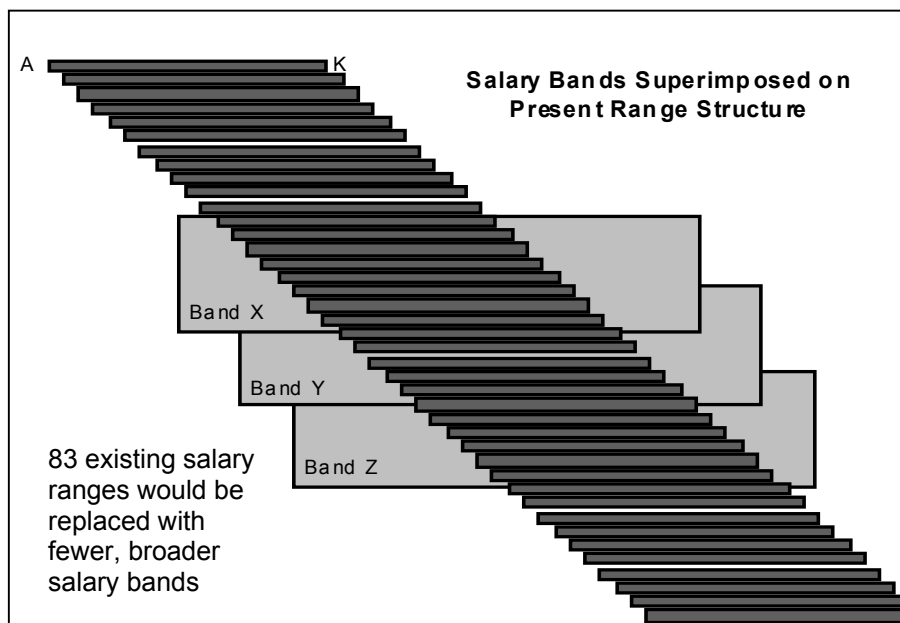
⁵ The number of occupational categories can only be estimated at this time. A more precise figure would follow further development work that requires significant involvement of user agencies and higher education institutions.

Standard Occupational Codes (SOC) to create their categories, while others have created their own categories so that they were carefully tailored to their unique situations.⁶ DOP believes that the best approach would be to create a structure more on point with the work performed in Washington State government.

An example of an occupational category is “Office Support, and Secretarial”. In the existing classification structure, there are 47 job classes for this type of work. Under the new structure, these 47 classes would be folded into the “Office Support, and Secretarial” category. Then, within this category, jobs formerly assigned to those 47 classes would be re-assigned to one of the four levels of entry, journey, lead, or supervisory.

In other words, these four levels (or classes) would replace the 47 separate job classes for this occupational category.

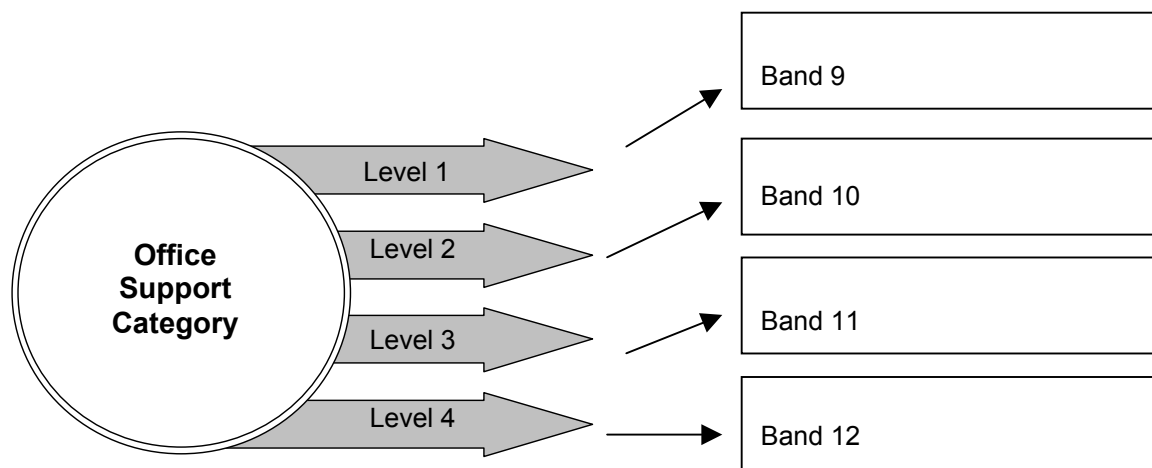
The recommended salary structure that would accompany the new classification system would consolidate and broaden the existing 83 ranges of 28% average width to approximately 25 salary bands with an average width of 65% (*please note that these are general estimates at this point for illustration purposes*). Each salary band would have its unique minimum and maximum dollar amount. The higher the band, the higher the minimum and maximum salary amounts.



⁶ In revamping its classification system, New Mexico chose to use the SOC and is now having to significantly modify the structure away from those codes. In a white paper issued in April 2002, the federal Office of Personnel Management describes SOC codes as work level descriptions dating back more than 50 years that are not meaningful for today's knowledge-driven organizations.

For any one occupational category, each of its four levels would be assigned to a separate salary band. For example, in the “Office Support” category, Level 1 might be assigned to Band 9, Level 2 to Band 10, Level 3 to Band 11, and Level 4 to Band 12. This example of salary bands and how levels within occupational categories fit into them is illustrated below:

Hypothetical Example



While a specific level of an occupational category is unique to a particular salary band, no band is unique to a certain level or occupational category. In other words, several occupational categories could be reflected within any one band.

For example, while Level 3 of the Office Support category might be in Band 11 (as shown in the hypothetical illustration above), Level 1 of the Human Resources category might also be in Band 11. This is no different than the present situation where several different types of jobs are assigned to a particular salary range.

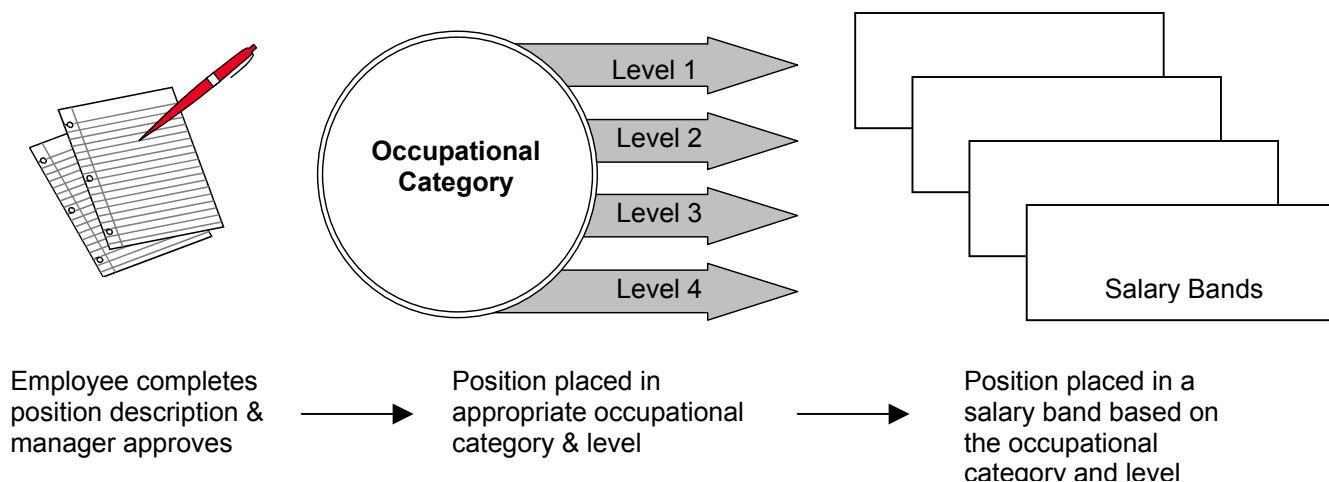
Individual positions would be assigned to a level within an occupational category using the whole job comparison method currently in place (jobs assigned a place in the hierarchy reflecting their value relative to the value of other jobs). However, the broader occupational categories and clearly defined levels will significantly streamline this process. Basically, the process would be as follows:

- (1) Following an appropriate job analysis, a position description would be prepared that describes actual duties and responsibilities of the job, key competencies necessary for job success⁷, and essential functions and working conditions.
- (2) Based on this information, the position would be placed into an occupational category on an almost self-allocating basis by comparing the position's work to the

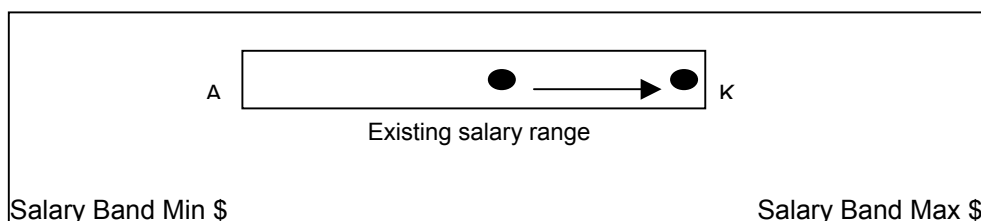
⁷ This addition of key competencies (skills and knowledge) needed for success in the position would also be useful for recruitment purposes, performance management, and layoff administration.

occupational category definitions. Because the categories are relatively broad, such as “Law Enforcement”, “Health Care”, “Engineering”, etc., this should be an easily reached, non-controversial decision.

- (3) The position’s duties would then be compared with the four defined levels of work within each category (i.e., entry, journey, senior, supervisory) and placed at the appropriate level. Because there would be a maximum of four broadly defined levels in each category, this too should be an easy decision to reach (which would naturally set aside the disputes and appeals that inevitably arise in a more tightly described system).



Upon initial implementation of the new classification structure, employees would transition into their new occupational category and level *at their current salary*, as illustrated below. The only exception would be to bring an employee’s salary up to the minimum of the new salary band if it is presently below it.



Employee transitions in at existing salary. If not already at step K, will continue to receive longevity increases until reaching equivalent dollar amount of step K.

Subsequent to initial transition into the new classification structure, positions would be placed in the appropriate spot within the salary band on the basis of a combination of key factors, including (but not limited to):

- The pay standard (e.g., weighted average salary) for the category/level and for most similar jobs
- Tenure and experience of incumbents in most similar jobs
- Internal alignment
- Internal equity; peer placement
- Extraordinary position specific circumstances such as locality, special skill needs, recruitment/retention issues, etc.
- Special candidate competencies brought to the job

The Department of Personnel would provide specific criteria, guidelines, and an evaluation grid or checklist to help agencies/institutions collect and assess the data necessary to make fair and appropriate decisions for position placement within the band.

Ongoing compensation administration considerations, such as the pay “spread within band”, anchor points, longevity based progression increases, performance-based salary increases, etc., are discussed in more depth later in this section.

Given the broader occupational categories and levels and the wider salary bands, formal reallocation (as it is known today) based on incremental increases in duties and responsibilities would largely be unnecessary. Rather than having to petition to change position allocation to a different job class, the employer would simply move the employee along the salary band in a dollar amount that appropriately recognizes the employee’s increased value and contribution.

DOP would provide guidelines to assist with these decisions. However, development of standards, processes, and implementation detail would be decentralized to agencies and institutions who would carry this out in relation to their unique business needs, resources, and any collective bargaining agreements. DOP would provide support systems, coach, train, and monitor, as well as collect and report salary administration information.

Promotions would be defined as moving to a higher salary band. This could occur by moving from one level to a higher level (e.g., from entry to journey) within a category. It could also occur by moving from one category to a higher priced category (e.g., from secretarial support to information technology).

The process for promoting would be simplified by minimizing rules and procedures. Incumbents would no longer be required by rule to compete for their own job when promoted to a higher level based upon an aggregate of work assignments. Also, employers would be granted authority (within guidelines) to determine the amount of salary increase tied to a promotion based upon the employee’s increased value and contribution to the organization. These activities would be decentralized. DOP would provide support tools and consultation, as well as monitor salary administration.

The opportunity for pay growth within existing job classifications afforded by the wider salary bands of this concept gives employees an incentive to actively pursue career

growth and begins to incorporate a performance-based culture. It also gives employers appropriate flexibility to customize the dollar amount of salary adjustments associated with the proposed new compensation options discussed later in this section. This approach is consistent with other public sector organizations that have consolidated and streamlined their classification and compensation systems.

The advantages of the occupational category classification approach include:

- Clearly meets legislative direction to “substantially reduce the number of job classifications” by reducing 2,400 classes to approximately 800-1,200.
- Simplifies allocation of positions into broad occupational categories and levels. Minimizes time spent making allocation decisions.
- Easy to communicate allocation decisions. Minimizes disputes and appeals.
- Broader, more flexible classification system enables users to respond to changes (e.g., labor market, economy, technology, bargaining).
- Broader structure helps to enhance mobility and career growth opportunities.
- Broader structure provides ability to reward achievement, within existing job arena.
- Wider salary bands provide the flexibility needed to implement new compensation tools and move toward a performance based culture.
- Salary flexibility facilitates competition for diverse talent and special skills.
- Easier to maintain internal alignment with broad occupational groups and fewer job classifications.
- Can be administered without a complicated, time-consuming, and expensive point factor system.
- Could easily assimilate Washington Management Service if that becomes necessary.

The disadvantages of this approach include:

- Transition to and implementation of a new system will require focused training and support in a relatively short timeframe.
- May create identity anxiety for employees who are most comfortable with very specific job class titles for their jobs.
- Some may be uncomfortable with fewer rules and greater authority granted to system users.
- Greater salary flexibility could increase claims of disparate treatment if not managed with care.

In general, the occupational category classification structure is a highly viable new approach. It very significantly streamlines the classification plan, is easier to understand, and is easier to work with. It minimizes process and administrative time and cost. It is easily decentralized to users allowing for customization to meet business and

employee needs. It allows new pay delivery options and the salary flexibility needed to incorporate a performance-based culture. It addresses many of the concerns and preferences that state employees and managers expressed as part of DOP's customer research.

Other Classification Options Considered

The Classification and Compensation Concept Design Team identified other possible options but recommended against them. The Department of Personnel agreed with the team that these options were not viable.

One option was a revised version of the existing system which consolidated the general government and higher education job classes thereby making some reduction in the number of job classes. It suggested a very slight salary range width increase from 28% to 33%. This approach is not deemed to meet legislative intent. It is basically status quo and carries with it the same problems of the present system.

It does not go far enough to reduce job classes and streamline the classification plan. It does not integrate the necessary degree of flexibility to address workplace change and foster career mobility. It does not significantly move the state's classification and compensation system toward a performance-based culture.

Another option considered was to broadband the entire classification system much like the Washington Management Service is structured. Such a structure would significantly reduce the number of job classes and create considerable room for salary and career growth. However, it would be very difficult to implement and sustain with the diversity and number of jobs found in the general classified service. It would be a highly significant change, and the time, training, and resources required to make it work would be impracticable.

Compensation Options

Several critical factors are causing public sector organizations at all jurisdictional levels to rethink and redesign traditional compensation systems. A competitive labor market created, in part, by growing skill shortages, coupled with changing expectations and attitudes among generations of employees, requires compensation to be both progressive and strategy-based if it is to be a successful business practice.

Progressive compensation systems offer managers flexible tools and choices for compensating their employees and dealing with difficult salary related circumstances. Tools are largely decentralized and require only simple, straightforward approvals to balance the accountability ledger.

Strategy-based compensation systems are proactive in supporting business needs and solving problems. They enhance business performance by linking individual and team performance to pay and creating a strong “line of sight” for employees to results achieved. Ultimately, they incorporate performance-driven behavior into the conduct of business and appropriately reward the employees’ efforts and contributions.

The challenge faced by Washington State government is to attract job candidates with the needed skills and talents, while supporting the development and recognizing the achievements of current employees – all within an uncertain state financial environment.

This is the context in which the Classification and Compensation Concept Design Team identified appropriate compensation options and in which the Department of Personnel offers them as discussed in this section. It is the intent that these options will help transform Washington State’s compensation plan into a progressive and strategic system.

Compensation Philosophy

An overall compensation philosophy is necessary to provide a supporting framework for using the various compensation tools discussed herein. A compensation philosophy is a series of statements about the intent and approach an organization takes in providing compensation to its employees. Adherence to the philosophy is fundamental to a credible, consistently administered compensation system. The following is proposed as the state’s compensation philosophy:

As a matter of compensation philosophy, the state of Washington shall endeavor to:

- Use compensation as a tool to attract and retain the highest quality workforce in a cost-effective manner within the resources available.
- Develop and maintain innovative pay delivery methods that link employee/team achievement with rewards.

- Provide a classification/compensation system that strives to provide fair treatment to employees through equitable assessment of value/contribution.
- Achieve flexibility and consistency in salary decisions through use of easily understood tools and rules to accomplish business objectives.
- Be reasonably competitive in the market place for work most closely associated with the state's critical business missions.
- Administer an open system and process focused on achieving employee understanding of classification and compensation decisions.
- Comply with state and federal laws regarding equal pay practices.

Compensation Tool Kit

The concept of an overall compensation "tool kit" is useful for understanding various compensation approaches and possibilities. The tool kit laid out in this section contains some approaches that are beyond the scope of the HR 2005 options since they are controlled through a separate arena (e.g., those needing legislative approval). In the table below, these are marked with an asterisk (*).

However, most of the options described here are intended to give agencies and institutions a wide range of varied and flexible compensation tools that can be quickly and effectively used to address specific business needs that arise. They include viable choices that are responsive to changing needs and resource challenges. They can also be introduced incrementally to assure that the pace of change is realistic and supported.

The compensation tool kit is composed of two basic pay categories and several pay adjustment methods within each of the categories. These are displayed below and discussed in detail in the remainder of this section.

Compensation Tool Kit	
Base Pay	Pay Practices
1. Longevity progression 2. Performance/Value opportunities 3. Promotions 4. General increases* 5. Partial salary survey* 6. 6767 increases*	1. Overtime 2. Exchange time 3. Recruitment/retention pay 4. Assignment pay 5. Skill-based pay 6. Shift differential 7. Stand-by 8. Call back 9. Equity alignment pay 10. Severance pay 11. Recognition pay

Base Pay

Base pay is the hourly, monthly, or annual salary rate which is definite and recurring and based on an employee's position type and job level. Base pay does not include wage/salary additives like shift differential, pay premiums, lump sum awards, or other specialized pay. Various approaches to adjusting base pay are described herein.

1. Longevity Progression (increases based on longevity only)

In the present system, each salary range is made up of eleven steps (steps A through K), each approximately 2.5% apart. Employees automatically receive two longevity-based progression steps (5.0%) at a time each year until they reach the final step K. This usually takes about 4½ years.

These longevity steps increase an employee's base salary and are currently considered to be "entitled" to the employee based on continued employment.

The civil service reform law requires "increment increases within the series of steps for each pay grade based on length of service for all employees whose standard of performance is such as to permit them to retain job status and continued employment in the classified service." The law implies that there must be multiple longevity-based steps, but does not specify exactly how many.

The salary bands of the recommended occupational category classification structure will broaden the width of traditional salary ranges. Therefore, some portion of all new bands would appear to have "room" beyond the present Step K. Policy will be needed to ensure that employees at Step K upon transition do not receive any additional, automatic longevity increases that seemingly become available because of the wider band. This would be financially impossible and is not appropriate.

In all cases, an "anchor point" must be set to reasonably limit longevity-based automatic progression and preclude uncontrolled salary growth. By rule, no longevity-based adjustments, whether being awarded to a new hire or on the basis of a promotion, could take an employee past the anchor point. However, salary increases beyond the anchor point could be based on other factors, such as performance, recruitment/retention, etc.

By no means would an employee lose money by virtue of the anchor point. Employees would be placed into the new salary range at their existing salary. Employees at step K of their present range would remain at that salary until increased for reasons other than longevity.

Employees who are not yet at the present step K at the time of transition to the new salary range would continue to progress as they presently do until such time as their pay equals (or exceeds) the step K rate of their present salary range. This is a matter of fairness and equity to employees. It is estimated that upon the date of implementation,

30% of employees⁸ will not be at step K. These employees would be separately tracked until they reach what would be step K of their present range. New hires would come under the new progression step plan put into place in July 2005.

Following initial transition into the new structure, DOP is proposing that when a position is placed in a salary band, it be assigned a salary spread of X% based on factors such as:

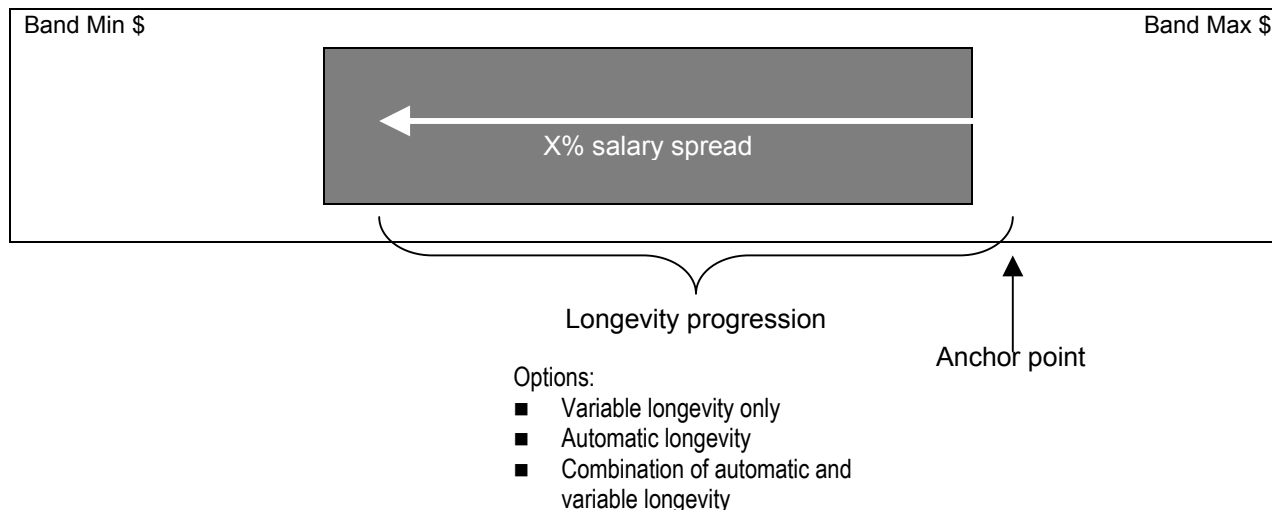
- The pay standard (weighted average salary) for the category/level and for most similar jobs
- Tenure and experience of incumbents in most similar jobs
- Internal alignment
- Extraordinary position specific circumstances such as locality, special skill needs, recruitment/retention issues, etc.
- Room above the maximum of the spread for appropriate further growth

The top of this spread would be the anchor point or maximum for any longevity-based increases.

As illustrated below, within this X% spread, a number of flexible options can be built around all other defining aspects of longevity-based progression, such as:

- The number of longevity-based salary steps (beyond the two required by law).
- The percentage amount of the steps, and whether the percentage amount be set or variable.
- The timing of the steps, and whether the timing be set or variable.

Illustration of “Spread within Band” for Longevity-based Progression



⁸ Employees in the general government classified service.

Four examples of the possibilities for varying longevity-based progression steps following appointment into a job are presented below. Each represents a measurable difference in design approach and can be modified by changing the percentage amount, timing between increases, eligibility, etc.

Example 1: [least flexible approach]

X number of longevity progression steps of set amount and set timing

For instance: 1st step of 5% provided at 6 months; 2nd step of 5% provided at 18 months; 3rd step of 5% provided at 30 months; and so on.

Example 2:

X number of longevity progression steps of variable amount and set timing

For instance: 1st step of 3-6% provided at 6 months; 2nd step of 3-6% provided at 18 months; 3rd step of 3-6% provided at 30 months; and so on.

Example 3:

X number of longevity progression steps of set amount and variable timing

For instance: 1st step of 5% provided at 6-12 months; 2nd step of 5% provided at 13-24 months; 3rd step of 5% provided at 25-36 months; and so on.

Example 4: [most flexible approach]

X number of longevity progression steps of variable amount and variable timing over the first 36 months

For instance: 1st step of 2% provided at 3 months; 2nd step of 4% provided at 9 months; 3rd step of 6% provided at 24 months; and so on.

By modifying the variables in the examples above, an infinite number of options are available to decision makers. In each case where flexibility is indicated, this would be decentralized to the agency/institution. The issue of linking the initial longevity step increase (or even subsequent increases) to the probationary review period remains to be addressed. Options for review periods are discussed in Section 2 of this document.

2. Performance/Value Opportunity

As mentioned previously, the state's existing compensation system offers no means to factor in performance in adjusting employees' base pay. The Department of Personnel is advancing the option of "performance/value opportunity" as a viable approach to financially recognize ongoing employee growth and contribution to the organization.

Performance/value increases could be applied only after an employee has received all available longevity-based progression steps.⁹ Performance/value increases would not be automatic and the total amount would be anchored.

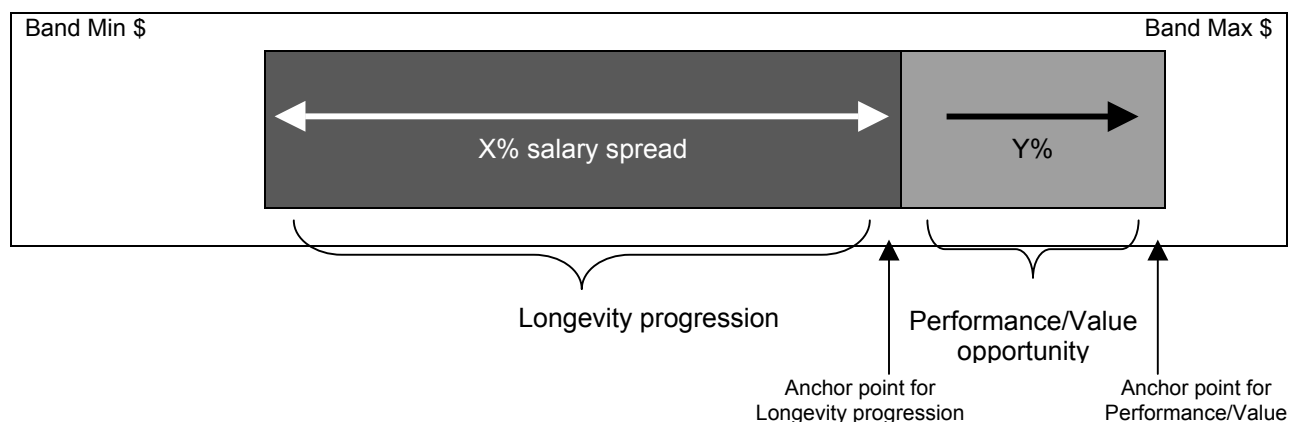
The employer would be able to grant performance/value increases on the following bases:

- *Sustained* high performance set forth and documented in the employee's performance plan and appraisal
- Development and successful *ongoing* demonstration of special skills and knowledge that significantly enhance the employee's value and contribution to the organization.

The terms *sustained* and *ongoing* are emphasized here because performance/value increases become a continued part of the employee's base pay.¹⁰ This is distinguished from lump sum recognition pay, which is appropriate for isolated special achievements (discussed later in this section).

The following is a sample illustration of how the performance/value opportunity would coincide with the longevity progression described earlier.

Illustration of Performance/Value Opportunity with Longevity Progression



The total amount of performance/value increases over the life of the job would be limited to a set percentage (the anchor point) by rule. Incremental increases within this limit could be determined by the agency/institution, as well as timing (i.e., how much of an increase within a unit of time). Managers would need to be held accountable for operating within budget limitations and ensuring fairness and objectivity.

⁹ Discussion is presently underway as to whether or not performance/value increases should be allowed before all longevity increases have been received.

¹⁰ Discussion is underway as to the permanency of the performance/value increase to base salary. For example, should it be continued if high levels of performance subside.

DOP would provide specific criteria, guidelines, and tools to assist with performance planning and documentation. Prior to implementation, managers would need appropriate training in performance management and use of this compensation approach.

Appropriate flexibility would be built in to meet business needs, motivate achievement of continued growth/development, reward contribution/value, and incorporate a performance-based culture into state government.

3. Promotions

A promotion is currently defined as movement to a new position or increased responsibilities in an employee's current job that results in assignment to a different pay range that has a higher salary maximum. Under the proposed occupational category classification structure, a promotion would mean moving to a new salary band and/or moving to a higher occupational category.

Presently, the personnel rules dictate the parameters of the percentage salary increase an employee will receive upon promotion. DOP is recommending that in the future, a decentralized approach should be adopted. Employers would develop their own specific methodology to determine the percentage increase received upon promotion, based on factors such as:

- Extent and nature of the job change or increase in job responsibilities
- Special talents brought to the new job
- Salary of others with similar responsibilities
- Minimum, mid-point, and maximum salary of the new band and pay spread within the band
- Labor market
- Available funds
- Any contract provisions that establish specific rates or other criteria

This approach allows employers to establish and reward the value associated with a promotion. It also encourages a performance culture by providing more incentive to take on greater duties/responsibilities. In addition, it sets aside the inflexibility presently associated with promotions. DOP would provide guidelines and maintain an oversight role.

4. General Increases

General increases are represented by a specific percentage of base pay (e.g., 4%) or a set dollar amount (e.g., \$250 per month) awarded to *all* employees. General increases are typically based on a combination of cost of living, labor market growth, and overall

pay package competitiveness as determined by the state's biennial total compensation survey.

Up until now, the state Legislature has determined both the amount and timing of general increases. With the implementation of civil service reform and collective bargaining, general increases for employees in bargaining units will become subject to negotiations between the Governor's Office and labor organizations. These bargaining agreements will be subject to financial approval by the Legislature.

General increases for employees not in bargaining units will be a decision reached by the Governor's Office subject to budget approval by the Legislature. It will be very important to give increases for these employees the same active consideration as those subject to bargaining.

The general increase approach to changing base pay is important for state compensation to keep up with the general labor market or at least minimize the lag. Such across-the-board increases have a wide-ranging impact and can aid staff retention.

On the other hand, general increases are very costly and unfocused, since they are granted to jobs paid above the market as well as those below. Furthermore, a general increase does not differentiate and recognize employee value and contribution since it is granted to all employees regardless of performance.

Some organizations use a comprehensive performance-based approach to adjusting base pay as an alternative to the general, across-the-board increases. In this approach, legislatively authorized salary increases would be based solely on the quality/quantity of employee performance. A combination approach is also used in some organizations where a portion of the authorized funds must be tied to performance.

The research reviewed by the team showed mixed success with the comprehensive approach in the public sector. Most were in jurisdictions that had no formal labor representation or where the civil service system had been eliminated all together. This is not the environment of the state of Washington.

The Department of Personnel has determined that a comprehensive or combination performance-based pay plan as described above is not a viable option at this time. This view is based on the significant resources (time, energy, and dollars) required, the tremendous cultural shift inherent in this approach, and the extraordinary demands placed on performance management. The challenges the state of New Mexico is facing with their pay for performance system due to no funding also dissuades from this option.

5. Partial Salary Survey Implementation

This has been an approach occasionally employed to partially "catch up" those jobs determined to be farthest behind the prevailing rate. For example, all employees in job

classes determined by the state's biennial salary survey to be greater than 20% behind prevailing rate may be brought up to the 20% behind threshold. This approach results in some employees receiving an adjustment to base pay.

Up until now, the Legislature has determined both the amount and timing of base pay increases to be granted through partial implementation of the salary survey. In the past, partial implementation of the salary survey has sometimes accompanied or substituted for general increases. This approach to adjusting base pay will remain available but will likely become subject to negotiations between the Governor's Office and labor organizations for employees in collective bargaining units and must be approved by the Legislature.

Partial salary survey implementation increases for employees not in bargaining units will be a decision reached by the Governor's Office, subject to budget approval by the Legislature.

This remains an important compensation tool that is necessary for state compensation to catch up with the general labor market. It focuses on jobs most behind the market and is less costly than a general increase. On the other hand, it is granted to all employees in a job class, regardless of differences in performance.

6. 6767 Increases

RCW 41.06.152, originally modified by SSB 6767, outlines a process for special compensation needs to be prioritized by the Washington Personnel Resources Board and brought to the Legislature for funding consideration as part of the biennial budget process. While primarily designed to address serious recruitment and retention problems and inequities, this tool may also address increased duties and responsibilities. Increases granted through this process over the previous three biennia have addressed a number of serious compensation deficiencies.

Because the resources for this compensation tool come out of the same funding source as other salary increases, funding for this tool may be limited. Increases granted through the 6767 process go to all employees in the identified job class, regardless of performance differences. Another significant disadvantage is the administrative detail and time lag in implementing such increases (problem resolution often lags problem identification by a couple years).

However, this approach does allow focus on some very specific, unique business issues such as recruitment and retention problems. As such, this remains an appropriate part of the compensation tool kit, provided that the responsiveness is improved.

Pay Practices

"Pay practices" typically address business specific circumstances under which an employee's base salary may be increased on an on-going or contingent basis. Pay

issues may be dealt with quickly and cost effectively by designing salary change approaches that focus specifically on critical needs. Pay practice tools may also be modified, withdrawn, or completely eliminated when circumstances change, without affecting the entire compensation system.

Some pay practices involve legal requirements (e.g., overtime pay) and others are a function of market competition for certain types of work or work locations (e.g., shift differential, location pay).

1. Overtime and Work Period Designations

Overtime is legally required compensation for employees covered by the federal Fair Labor Standards Act (FLSA) when they work in excess of 40 hours in a work week. The present conditions and criteria for paying overtime in general government and higher education are specified in Washington Administrative Code (WAC).

Washington State government presently uses three “work period designations” to identify eligibility and qualifying circumstances by which each individual position qualifies for mandatory overtime compensation at the premium rate of 1½ times normal pay. Those designations are titled *Scheduled*, *Non-scheduled* and *Exception*. The work period designations of *Non-scheduled* (40-hour per week standard) and *Exception* (those excepted from the overtime compensation provisions) match up identically to the requirements of FLSA.

However, the work period designation of *Scheduled* (daily work schedule standard) grants overtime compensation in a manner that vastly exceeds the requirements of the federal law. The *Scheduled* designation requires overtime compensation at the premium rate for all hours worked outside of the employee’s daily work schedule (if the schedule has not been changed one week in advance). The *Scheduled* designation requires payment of overtime at the premium rate to an employee even if he/she has not worked eight hours in a workday or 40 hours in a workweek, simply because the employee was required to work outside of his/her established daily work schedule.

The *Scheduled* standard was adopted into WAC by the Personnel Resources Board many years ago to prevent supervisors, through the penalty of added pay, from changing employee work schedules with little notice and thereby disrupting the employee’s schedule certainty and personal life outside work. While this is an admirable goal, state service is largely about providing services to citizens. Many times providing this service requires adjustments to a daily schedule that cannot be predicted a week in advance.

Forty-eight percent of the state’s job classifications are assigned to the *Scheduled* work period designation. This practice costs taxpayers. It is recommended that the *Scheduled* work period designation be eliminated, except where required by law.¹¹ This will result in cost savings while maintaining coverage of employees under FLSA.

¹¹ Required by RCW 72.01.042 for institution workers in DSHS and DOC.

More importantly, it will also grant welcome schedule flexibility to both employers and employees, being viewed as workplace friendly by many. It sets aside much schedule change paperwork and allows employees to have flexible work schedules to accommodate personal needs and preferences.

Overtime pay amounts and specific provisions (such as eligibility) will likely be a focus of collective bargaining. These same issues need to be reviewed and updated for future application to employees who will not be covered by collective bargaining.

Compensatory time is paid time off at the same rate as overtime. The FLSA allows public sector employers to offer employees compensatory time in lieu of paid overtime if the parties agree. Current WAC complies with the federal regulations and no changes are proposed.

2. Exchange Time

Exchange time is a tool that may be used to offset extra hours worked by employees who are exempted from the overtime provisions of FLSA (*Exception* work period designation). This is a very flexible tool that may be customized to address specific situations. Accrued exchange time does not become a financial liability if not used. This provides system users a helpful tool to recognize extra hours worked by those who do not typically receive overtime pay. DOP recommends continuation of this tool. Since this tool does not formally exist with the higher education system presently, some work will need to be done to ensure it works as intended in the consolidated system.

3. Recruitment/Retention Pay

Recruitment/retention pay is an adjustment to base salary to attract and/or retain key staff. The state must be able to make agile, responsive pay adjustments in order to be reasonably competitive for the talent needed to deliver critical state services. Use of this compensation option would focus on supply and demand and the ability to compete in the local labor market for the specific type(s) of talent needed by system users. DOP recommends the inclusion of this recruitment/retention pay tool. It would consolidate 'recruitment/retention assignment pay' presently used in general government and 'special pay' used in the higher education system (which includes locality as a factor).

Implementation would be decentralized to agencies/institutions. DOP would develop specific criteria/guidelines and would consult on administration of this tool. The criteria would be flexible to address different business needs in a customized manner. DOP would continue to monitor and report on adjustments made through use of this tool.

4. Assignment Pay

Assignment pay is additional pay typically used to recognize special responsibilities beyond the job norm, unusual circumstances, or hazardous working conditions. Examples include operating specialized equipment, dual language fluency, applying

pesticides, working at dangerous heights, etc. Assignment pay may be added to an employee's base salary on an on-going basis (because the circumstances or conditions regularly occur) or on a situational basis (each time an occurrence arises).

This is an important pay practice that allows the employer to appropriately compensate for special responsibilities and unusual working conditions. It is a flexible tool, allowing system users to focus on addressing specific needs. DOP recommends its continuation.

The "hazardous condition pay" and "multi-lingual/sign language/braille" premium pay presently used in higher education will need to be consolidated within this tool. There will be a need to streamline qualifying criteria as well as the process for enabling the assignment pay provisions to be used.

5. Skill-Based Pay

Skill-based pay provides an incentive for employees to acquire and expertly use additional skills and knowledge in the performance of their work responsibilities. Some organizations, like Home Depot, use this as the primary tool for base pay determinations. DOP recommends that it would better fit the tool kit approach as a complementary incentive approach that encourages employees to gain and demonstrate skills/knowledge that enhance their capability, resulting in a direct value-added return to the organization.

The amount of pay awarded for the acquisition of the skill or knowledge would be based upon: (1) value of the skill to the organization; (2) difficulty in acquiring and mastering the use of the skill; and, (3) its frequency of use. Overall guidelines, such as these, would be developed by the Department of Personnel in collaboration with users to assure approaches are achievable and fair.

Note: A special provision for skill-based pay may not be needed if the concept of Performance/Value opportunity discussed previously is adopted.

6. Shift differential

Shift differential is a premium paid to staff who work an evening or night shift. This is an essential tool to compensate for shift work and compete in the marketplace for staffing of hard-to-fill shifts (particularly for health care workers, corrections staff, etc.). The continuation of this pay tool is recommended. Some work will need to be done to simplify the qualifying criteria and normalize the differences presently existing between general government and higher education. Steps could also be taken by the DOP to enhance flexibility in the application of this tool so that it may be customized to meet the unique business needs of individual users and considered for decentralization.

7. Stand-by Pay

Stand-by pay is used as a tool to require employees to be present in a specified location and be prepared to report to work immediately if the need arises. This tool is essential to enable system users to have key staff ready to provide critical services to taxpayers. It is also a requirement under the Fair Labor Standards Act.

It is recommended that stand-by pay be revised from the present varying rate to a standard rate of base pay. The qualifying criteria should be simplified and the differences presently existing between general government and higher education should be normalized. Steps could also be taken by DOP to enhance flexibility in the application of this tool so that it may be customized to meet the unique business needs of individual users and considered for decentralization.

8. Call Back Pay

Call back pay is a premium paid to employees for being required to return to work after departing the work site or for being required to change the start of their next scheduled work shift without notice. This incentive helps users meet unpredicted staffing needs.

Continuation of this pay tool is recommended. Some work will need to be done to simplify qualifying criteria and normalize the differences presently existing between general government and higher education. Steps could also be taken by the DOP to enhance flexibility in the application of this tool so that it may be customized to meet the unique business needs of individual system users and considered for decentralization.

9. Equity Alignment Pay

Equity alignment pay constitutes an ability to adjust base salary to address errors in determination of an employee's starting base salary, or establish a more appropriate salary alignment with a peer or subordinate.

Presently, only limited ability to correct such problems exists within the rules. So, despite identification of a clear inequity, employees are often told, "little can be done." Progressive employers need effective tools to responsively correct problems. It is recommended that this tool be added to the state's compensation tool kit. General statewide guidelines would be developed by DOP with policy/procedure administration decentralized to users.

10. Severance Pay

Severance pay is a lump sum amount provided to employees upon layoff. Typically the amount is one to six months of normal pay depending upon the severed employee's length of service. The purposes of severance pay are to cushion the blow of layoff and to provide a reasonable cache of funds to keep laid off employees economically afloat

and off of welfare while they seek other employment and/or re-train for other occupations.

Beyond this, severance pay communicates loudly that the employer cares about the individuals being laid off. This speaks volumes to the employees who remain working and it is incredibly important for them to know (through tangible, outward actions) that their employer cares about them and will take care of them to some reasonable degree if a business crisis occurs. The culture of caring created through use of severance pay is a powerful recruitment and retention tool. It is recommended that severance pay be added to the state's compensation tool kit.

11. Recognition Pay (lump sum)

As defined here, recognition pay differs from the performance/value increases described earlier in that it is offered to the employee as a single lump sum, rather than an ongoing adjustment to the employee's base salary. In DOP's customer survey, both managers and employees indicated that this was an important feature to include in the state's compensation system.

Recognition pay is intended to motivate performance excellence by rewarding special achievements and accomplishment of special goals, projects, or assignments that enhance the organization's ability to fulfill its mission and strategic plans. It might also be used to reward successful candidate referral and for hiring incentives. It can be tailored around recognizing individual or team accomplishments and specific business needs.

Such lump sum awards are not entitlements and must be re-earned. Because they do not add to base salary, they do not create future costs. Organizations would have to carefully budget in order to have funds available to use this provision. It is possible, however, that where employee or team accomplishments result in a cost-savings to the organization, a portion of that savings could be used as the recognition pay lump sum.

The Department of Personnel recommends recognition pay as an important addition to the state's compensation tool kit. It adds critically important intrinsic value in shifting to a performance culture.

At the same time, it is clearly recognized that there is a strong need for guidance and training to assure consistent and fair treatment among state employees. DOP would develop broad policy guidance and models for implementation, and would provide the necessary training to achieve the desired results.

Classification & Compensation – Other Considerations

As discussed in this section, after careful review of the concepts offered by the Classification and Compensation Concept Design Team, the Department of Personnel

has selected options that appear to be viable for a new state job classification structure and a comprehensive compensation tool kit. These recommendations offer employers and employees many choices and also represent considerable progress in system modernization, decentralization, flexibility, and fairness.

Recognizing the cultural shift in state government that will be occurring concurrently with the classification and compensation system changes, the Classification and Compensation Concept Design Team strongly urged future development of system support mechanisms. Examples of such support mechanisms would include:

- Orientation and training for managers and employees on the use of the new classification and compensation system
- Extensive training for managers in the area of performance management
- Extensive training for human resource staff on the intricacies of the new system and appropriate HR consultation skills
- Development of clear guidelines and checklists for user reference
- Pilot projects, as appropriate
- Incremental transition approaches
- Methods to certify competency in some tools prior to use
- Focused salary surveying
- Development of data collection and reporting systems in order to monitor and track practices
- Streamlined rules

Significant consultation and support will need to be made available to all users during the first few years of implementation and transition to the new systems and on an ongoing basis for users not having full time human resource staff.

Classification and Compensation Options

APPENDICES

Appendix 1

Classification & Compensation Concept Design Team; DOP Support/Review Teams

Classification & Compensation Concept Design Team

John Robertson – Team Leader	Department of Personnel
John Boesenberg	State Board for Community/Tech Colleges
Sally Farrar	Washington Federation of State Employees
Dave Fiorini	Department of Social & Health Services
Pat Gebhardt	Department of Natural Resources
Shelley Middlebrooks	University of Washington
Dan Myers	Office of Financial Management
Cary Randow	Department of Personnel
Connie Riker	Office of Attorney General
Pam Skinner	Office of Attorney General
Susan Sparks	Department of Personnel
Sandi Stewart	Department of Personnel
Janetta Taylor	Department of Revenue
Teri Thompson	Department of Personnel
George Weirich	Washington Public Employees Association
Phil Wilson	Department of Social & Health Services

DOP Staff Support Team

Bob Hahn	Patty Orchard
Kris Brophy	Wendy Philbrook
Dave Cahill	Holly Platz
Chana Clark	Yvonne Poe
Darlene Garlick	Lynda Premo
Joe Gross	Mary Rodriguez
Kari Lade	Dorian Sanchez
Marisa McKay	Rick Shea
Robert Murff	Lisa Skriletz
Melia Olsen	Tammy Tee

Classification System Review Team

An internal DOP workgroup was formed in late November 2002 to develop recommendations for the Classification and Compensation Concept Design Team regarding a proposed new classification model. DOP staff who worked on this project included Kris Brophy, Dave Cahill, Patty McGuire, Melia Olsen, Patty Orchard, Wendy Philbrook, Holly Platz, Lisa Skriletz, and Tammy Tee.

The workgroup was asked to compare the state's current general government and higher education classification systems with a proposed new classification model using occupational categories. The workgroup was also asked to review the current classification system to see what does and does not work, to determine a conceptual framework using the proposed classification model, and to develop practical examples. Using the new framework, the workgroup was further asked to outline what rule and/or guideline changes would be necessary to implement this new classification system.

Appendix 2

Draft Criteria for Occupational Categories

Occupational categories should be as broad as possible within these criteria:

- Commonality of work. (Simplifies the position allocation process and eases ability to identify where one fits within the classification system.)
- Categories should not be so broad as to cause lengthy descriptions to have to be written. (Goal is to have clear, concise descriptions/definitions to facilitate allocation. Employees will be able to easily recognize their jobs in a category.)
- Jobs with the same legal requirements should be in the same category. (To avoid categories with different absolute requirements.)
- Categories should not be so broad as to have conflicting benchmarks. Multiple benchmarks must be compatible. (In order for the salary survey process to be valid.)
- For common work that has multiple sub-professional and professional jobs, these would be placed in separate categories if putting all in one category causes too large a salary range. (In order to reasonably control salary band width.)

Appendix 3

Draft Definitions for Levels of Work for Each Occupational Category

Level 1 – Entry

Incumbents work under close to general supervision and within narrowly established guidelines. Work tasks are often repetitive and routine and decision making is limited within those standards. Work directions are provided and outcomes are reviewed by higher levels. Work parameters are clearly set. Employees have limited latitude to resolve problems outside written guidelines. This level may assist or be trained for a higher level. The impact of error is small.

Level 2 – Journey

This is the working or fully qualified level. Incumbents work independently and are competent to resolve issues within their area of responsibility. Staff have a working knowledge of program needs, prioritize their work and have latitude to resolve work problems. Work is reviewed on a spot check basis after decisions have been made. Activities and methods are generally defined and known. Unusual problems that may occur are brought to higher levels with probable outcomes and solutions. The impact of error is moderate.

Level 3 – Senior

This is often described in a variety of ways including Specialist, Expert, Lead, Trainer, the most complex or in-depth worker. Incumbents receive limited supervision, set their own priorities, make decisions independently and can commit to a course of action. Incumbents deal with, resolve or oversee the most sensitive, complex, or critical issues. Incumbents may be a designated specialist/expert to function as a consultant to management levels. Incumbents are expected to develop and innovate, and are responsible for the flow and completion of work. Incumbents may lead or train peers and are directly responsible for the quality of their work. Incumbents are given the scope and intent of assignments but are expected to determine the methods and procedures to complete the work task. The impact of error is significant.

Level 4 – Supervisory

Incumbents have delegated authority to perform functions such as, but not limited to, selection, training and development of staff; assigning and evaluating work; and taking corrective action.

